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Message Text

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15
ORIGIN NEA-16

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-03

INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 L-03 H-03 /138 R

DRAFTED BY TREAS/OASIA:SOCHILTREE:NEA/PAB:MGJONES/NH
APPROVED BY NEA:LBLAINGEN
TREAS/OASIA/BDPO:SCANNER (DRAFT)
NEA/PAB:PDCONSTABLE (SUBS)
ASIA/PL:SLEVINE (SUBS)
NEA/ PAB:RAPECK
---------- 085411
R 230017Z JUL 74
FM SECSTATE WASHDC
TO AMEMBASSY ISLAMABAD
INFO AMEMBASSY NEW DELHI
AMCONSUL KARACHI
AMCONSUL LAHORE

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E.O. 11652: N/A
TAGS: EFIN, PK
SUBJECT: U.S. BANKS REQUEST INCREASE IN U.S. TREASURY
RUPEE DEPOSITS

REF: (A) ISLAMABAD 5875; (B) ISLAMABAD 6817

SUMMARY. WHILE USG WOULD, IN PRINCIPLE, NOT OBJECT TO
ADDITIONAL USG RUPEE DEPOSITS FOR U.S. BANKS IN PAKISTAN,
WE ARE CONCERNED LEST ANY SUCH ACTION DAMAGE USG AND/OR
U.S. BANKS POSITIONS THERE. WE THEREFORE SUGGEST THAT
BANKS TRY TO DISCUSS WHOLE MATTER WITH GOP, PERHAPS WITH
EMBASSY ASSISTANCE. END SUMMARY.
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1. USG WOULD HAVE NO OBJECTION IN PRINCIPLE TO TRANS-
FERRING ADDITIONAL OFFICIAL USG RUPEES TO U.S. BANKS IN
PAKISTAN, INCLUDING NATIONAL AND GRINDLAYS, PER REF A.
INDEED, AS A MATTER OF LAW, TITLE 31, SECTION 473 OF THE
UNITED STATES CODE PROVIDES THAT THE SECRETARY OF THE
TREASURY WILL GIVE PREFERENCE TO AMERICAN FINANCIAL
INSTITUTIONS IN DESIGNATING DEPOSITARIES IN FOREIGN
COUNTRIES WHERE SUCH U.S. INSTITUTIONS ARE SAFE AND ABLE
TO RENDER THE SERVICES REQUIRED. THUS OUR POLICY HAS BEEN

AND CONTINUES TO BE TO INSIST UPON RECOGNITION THAT
RUPEES ARE USG PROPERTY WHICH CAN BE PLACED AT OUR DIS-
CRETION. HOWEVER, A 1966 LETTER FROM EMBASSY ISLAMABAD
TO GOP CONDITIONED UNILATERAL TRANSFER RIGHT BY PROVIDING
ASSURANCES THAT USG WOULD NOT EXERCISE THIS RIGHT IN
MANNER WHICH WOULD UNDERMINE PAK MONETARY STABILITY.
ACCORDINGLY, USG CANNOT ENDORSE PROPOSED TRANSFER UNLESS
IT CAN BE JUSTIFIED AS BENEFICIAL TO GOP.

2. WE ALSO REALIZE THAT REQUESTED TRANSFER LIKELY TO
ANNOY GOP AS IT IS EMPLOYING POLICY OF MONETARY RESTRAINT,
AND THAT IN LONG RUN RUPEE TRANSFER COULD BE COUNTER-
PRODUCTIVE TO U.S. PRIVATE BANKING INTERESTS IN PAKISTAN,
AS WELL AS TO USG INTEREST IN MINIMIZING GOP CONCERNS RE
SIZE USG RUPEE HOLDINGS (I.E., "RUPEE PROBLEM").

3. ACCORDINGLY, OUR MAIN CONCERN AT THIS POINT IS TO
AVOID PLACING USG IN POSITION OF TAKING POLITICAL HEAT
FOR ADVANCING PRIVATE INTERESTS OF U.S. BANKS WHICH ARE
COUNTER TO PAKISTAN'S NECESSARY STABILIZATION POLICY.

4. ON BEING CONTACTED, HEADQUARTERS OF THE THREE U.S.
BANKS WERE SPLIT ON HOW ISSUE SHOULD BE RAISED WITH GOP.
BOA AND AMEXCO FAVORED INITIAL MINIMUM USG INVOLVEMENT,
WHEREAS FNCB WISHED USG TO TAKE INITIATIVE AND PRESUM-
ABLY BEAR MOST OF POLITICAL RISKS OF RAISING THE ISSUE.
HEADQUARTERS OF ALL THREE BANKS AGREE THAT GOP HAS AMPLE
MEANS OF RETALIATION AGAINST U.S. BRANCHES IN PAKISTAN
IF USG MAKES RUPEE TRANSFER UNILATERALLY. FYI: AMEXCO
OFFICIAL INDICATED UNFAMILIARITY WITH ISSUE BUT, AFTER
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CONTACTING PAKISTAN BRANCH, TOLD US AMEXCO ONLY WANTED
TO PROCEED IF SUCH ACTION WOULD NOT RPT NOT "ROCK THE
BOAT." END FYI.

5. IF EMBASSY BELIEVES IT APPROPRIATE, IT MAY ARRANGE
APPOINTMENTS SO U.S. BANKS CAN DISCUSS ISSUE DIRECTLY
WITH GOP, AND MAY HAVE A RECORDING OFFICER PRESENT AT
MEETING AT EMBASSY DISCRETION. HOWEVER, EMBASSY SHOULD

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NOT RPT NOT ACT AS HARD ADVOCATE OF U.S. BANKS' POSITION.

6. IN VIEW OF THE FACT THAT AMERICAN BANKS HAVE OFFERED TO PAY 8 PERCENT INTEREST ON ANY NEW DEPOSITS, IT RAISES THE QUESTION OF THE ADEQUACY OF THE WEIGHTED AVERAGE OF 3 PERCENT INTEREST ESTABLISHED IN 1967 AND

CURRENTLY RECEIVED ON USG DEPOSITS WITH SAME BANKS. THEREFORE, TREASURY WOULD APPRECIATE EMBASSY'S COMMENTS AND RECOMMENDATIONS AS TO WHETHER WE SHOULD RECEIVE A HIGHER RATE OF INTEREST ON EXISTING MATURITIES.

7. PLEASE ALSO REPORT ON SUBSTANCE OF CONVERSATIONS BETWEEN GOP AND BANKS, TOGETHER WITH ASSESSMENT OF EXTENT TO WHICH LOCAL REPS OF U.S. BANKS WISH USG TO PUSH OFFICIAL RUPEE DEPOSIT ISSUE. IN THIS REGARD, DEPARTMENT NOTES WITH INTEREST REPORT CONTAINED IN REF B, PARTICULARLY CONCERNING AMEXCO'S CHANGE IN POSITION. KISSINGER

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To: ISLAMABAD
Type: TE
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